Minutes from CRA Directors & Service Providers Meeting #1

November 9, 2018

Attendees—Financial Services: Julie Buchholz, Comenity Capital Bank; Al Landon, Center for Innovation in Banking and Financial Services; Kirk Lundgren, Pitney Bowes Bank; Karen Akerlow, Utah Association of Financial Services

Attendees—Service Providers: Joni Clark, Utah Community Action; Lisa Nichols, Intermountain Health Care, Community Health

Project background

- In 2014, a report regarding the community needs was made available to banks through the Utah Association of Financial Services. Sorenson Impact has been asked to do this work and pull out the major themes from existing community needs assessments and working with service providers.
- The purpose of these meetings was to begin a dialogue between CRA directors and local service providers to find new synergies around the use of CRA funds and identify needs of the community. There seems to be a chasm between banks looking for more creative financing solutions, and service providers looking for ways to access more CRA funding. What is holding the lending back from the service provider’s perspective, and what do banks need from nonprofits to maximize the deployment of capital in this community? What is working, what is not?
- This report aims to assess the needs of the community for CRA requirements, which will help in these objectives.

Where do you see the needs of the community?

- Lisa Nichols, Intermountain Healthcare: Housing. Not just affordable housing, but for example, Utah has much higher substance use rates than other states; sober living housing is key. It’s difficult to get into the housing market right now—there is a need for fluid cash and there is a gap in the capital. This may be an opportunity for a fund or a line of credit. I often hear from nonprofits that space is inadequate - not only for service providers but for workspace as well. There may be an opportunity for well-placed community meeting facilities and workspaces.
- Joni Clark, Utah Community Action: We’re experiencing that as well; people are doubling up and buildings are old. One of the findings from their community needs assessment is a good space for both staff and clients. We also see affordable housing and sober living as an issue, especially when we’re working with single moms. Affordable childcare is a challenge for working parents. The wages that we provide childcare workers are not enough; we offer competitive wages in our Headstart program, but employees are having a hard time living on this wage.
- Lisa Nichols, Intermountain Healthcare: Intermountain owns a few complexes that are rented to our lower-income caregivers; IHC has heard from business owners that having a partner to allow for affordable housing for their lower wage earners. Not necessarily subsidies; many people would be very happy with a small, affordable suite that is safe, ADA certified, affordable, close to public transportation and other facilities.
The challenge then is if you can work with the builders to allow a certain percent to low-income renters.

Is there a desire to do more lending in creative ways? Are nonprofits capable of moving into a debt relationship, and if not, what are the barriers?

- **Kirk Lundgren, Pitney Bowes Bank**: The banks I’ve worked with have all been small; the ability to lend tax credits have been limited.
- **Al Landon, Center for Innovation in Banking and Financial Services**: CRA obligations are periodic, but housing facilities and housing are longer terms. The issue is how to get a long-term commitment structured into increments. Our bank funded the Children’s Justice Complex in Honolulu: 10 agencies centered around daycare, health, legal services, immigration, etc. So how do you buy the building, renovate, finance it in a way that incrementally works for CRA? Is there a way that we could create a qualifying forgiveness bond that has an annual cash flow accompanied by an annual subsidy? In this way, you become a long-term financial partner. The critical thing is having services adjacent to the need.
- **Lisa Nichols, Intermountain Healthcare**: Many of the nonprofits we work with may actually be quite willing and pleased to take on a loan at terms they can meet or at conciliatory rates. Odyssey House, Inn Between, Columbus Community Center, any of the Community health centers.
- **Joni Clark, Utah Community Action**: The board would consider taking on some sort of debt. I’d love to see what a small or medium-sized nonprofit would say; since we’re larger and work hard to diversify our funding and have wiggle room to take on debt. It needs to be taken on slowly—we can only take on a major project every one to two years. We could do far more if the organization were in a position to take on more risk.
- **Al Landon, Center for Innovation in Banking and Financial Services**: Typically the issues are equity up front, and then validated and sustainable cash flow to make the repayments, a reliable management structure – what does the risk boil down to? Maybe it’s an organization you can partner with, so there is both lending and service.

Creativity needs to come on what counts. Right now the regulatory agencies are looking at how to modify, strengthen, and modernize CRA. We’ll work on this assessment first, and also consider how can we change this system so that its a coalition of those in need and those with resources.

Sometimes it’s referred to as the Salt Lake City problem; there are too many banks and resources in one county.

- **Kirk Lundgren, Pitney Bowes Bank**: There are also the CRA deserts in Utah and the assessment area problem.
- **Let’s just pick a jurisdiction and try an approach while we’re debating what the right long-term solution is. I would go to Washington and say, “let’s take your worst problem, Salt Lake City, and try something out, and then you’d have some data to base your decision on.”**
  - **Fraser Nelson, Sorenson Impact Center**: We can build housing for people that work but can’t afford it, with the combo of sober living with wraparound services (child care, sober living, job training, healthcare, etc.)
- Can we have that kind of structure from a government’s standpoint? Is there a way that all cities can take on their share? Considering the recent change in how the area is handling homelessness, we should be deliberate in how we approach this.

Is there an appetite among the banks to do something collaborative?

- **Karen Akerlow, Utah Association of Financial Services**: Yes, with our foundation we meet quarterly to go over grant applications; we could do something similar and meet together with banks to go over investments and loans.
- **Kirk Lundgren, Pitney Bowes Bank**: Particularly among the smaller banks, there is an appetite for a joint venture if it is structured well. The large banks like Ally, Zions, Wells Fargo, etc. can do deals like this on their own, but smaller banks need to find opportunities where we can partner with others where risk is lower.

- **Al Landon, Center for Innovation in Banking and Financial Services**: Or I think about some condominium project, where your part is proportionate to your resources, or it could work with a resource center as well. There are various ways to structure this.

- **Joni Clark, Utah Community Action**: These ideas are great and I’d love to see a nonprofit supercenter because transportation tends to be a problem for these families. If we could partner and create a one-stop shop with these wraparound services, that would be great.
  - Fraser: It’s similar to the domestic violence services at the Y, or the community legal center, that saved everyone some much money, stabilized rents for the organizations, and built an endowment and makes it so much easier for families.

- **Lisa Nichols, Intermountain Healthcare**: Do you work exclusively with nonprofit partners?

- **Fraser Nelson, Sorenson Impact Center**: We’re in a different place than we were 10 years ago; our nonprofits are quite stable, leadership is stable, no one has gone under in a while. We’re in a place where we can try something like this and there are nonprofits that would be willing and able to go along for the ride. We’ll look to the needs assessment, but its clear that between the opioid epidemic, the very limited sober housing availability in the state, affordable housing generally, but especially for reentry and disability, the nonprofit supercenter – there are all kinds of need that we could fill.
  - **Julie Buchholz, Comenity Capital Bank**: We can also support effort around homelessness. We have shelters and resource centers, but we don't have enough housing. Also funding wrap-around services.

- **Julie Buchholz, Comenity Capital Bank**: So the loan fund is just be explored as part of the conversation for the needs assessment.
  - **Al Landon, Center for Innovation in Banking and Financial Services**: We’ve gone on two tracks: One is to explore the needs of the community in a way that the banks would find helpful, and two is what a solution could be to how we can improve CRA in this market and in general.
  - **Julie Buchholz, Comenity Capital Bank**: We have a lot of banks, but we’re not as much of a hotspot as they think we are, because banks like Kirk’s and mine are very limited in what we can do. We’re limited in our budgets, I have no ability to do any kind of construction lending without credit underwriting people for construction. To go solve the affordable...
housing problem by lending money for construction is not what our banks do. We need to get the message out loud and clear we want to help. If some kind of fund were created, like RMCRC who has the expertise and is taking the lead, and banks who want to help can participate. We have to set the entity up though that will drive the loan production in a way that they know what they’re doing. Other CDFIs: CDC Utah, NeighborWorks. The question to them is why have they not tried to do something similar to RMCRC? There may be business reasons. It would be great if we had options. We’re making investments in securities and investment, that’s a function of the fact that we don’t have the internal resources to do a whole lot more. If we create funds that would make it a lot easier for the industrial banks, in particular, to jump in, then we will be a hot spot and really be doing things. Not all the banks are as big as people think they are, but that doesn’t mean the fiduciary institution of this big corporate brand name is as big as people think. There is a handful of us that are credit card banks; we don’t do construction lending. Some of us have limited purpose designations; we don’t offer those products, but we still need to have a CRA portfolio where we do a lot of creative things.

Wrap-Up
- There is a desire to be creative and collaborative through a sort of participation agreement with an annual renewal. Most of these special purpose banks are open to being a part of a collaboration like this, but can’t lead on it (a large bank may be able to lead, or a CDFI). We want to create a sandbox here and test this model.
  - Ideally, we’d receive CRA credits for participating and could extend this to the whole state to cover CRA deserts—once you meet your obligation in your assessment area (which we can develop proposals around), you’re free to pursue funding other community needs in the state.

Minutes from CRA Directors & Service Providers Meeting #2

November 16, 2018

Attendees–Financial Services: Kathy Hale, Ally Bank; Al Landon, Center for Innovation in Banking and Financial Services; Aimee McConkie, Utah Association of Financial Services; Syd Peacock, Synchrony Bank; Stephanie White, UBS Bank

Attendees–Service Providers: Preston Cochrane, Shelter the Homeless; Ollie Wilder, Park City Community Foundation

Project background:
- Daniel Hadley, Sorenson Impact Center: We learned from the meeting in Park City that there are misperceptions about what CRA lending is about and what banks are able to do, as well as gaps in understanding what the community needs are. We’re looking to understand how we assess the problems and address them head-on.

What are the issues that we can focus on where CRA banks feel where they can lend? What are the top level needs where loans can be applied?
- Kathy Hale, Ally Bank: Affordable housing is a top need; a gap often exists between advertised price and cost. Many problems can’t be solved with loans because service providers don’t have a business model to repay the loan. Affordable housing is the stability that people need to stabilize
and be able to seek other essential resources. Charlotte and Detroit provide a good model for affordable housing (LISC) which utilizes a capital stack similar to the pay for success model. In Charlotte, Carolina, there are local initiatives to provide capital stack similar to PFS at deeply discounted rates. In Detroit, Michigan, resources are placed into one pot. A $40M bond is combined with grants, loans, and other investments. By the end, $80M is accumulated for distribution. The states put up money which would be helpful in Utah to create a central “rally” point. Loans and investments are deeply discounted; which brings all the resources into one pot, so parties are more bound to make something happen. It provides a focal point for addressing this kind of need.

- **Preston Cochrane, Shelter the Homeless**: The housing affordability commission at the state legislature is working on a bond initiative for deeply affordable housing for residents at different AMIs. There are lots of different levels of rent and housing affordability. There are people who have an income, but are homeless because they can’t afford rent; there are teachers and firefighters in this situation, and there are local university students as well in this situation living in their cars. The “point in time” count is hard to get a true number when people are living in cars, the legislature is trying to get most accurate count they can get to assess the extent of the problem with homelessness and affordability.
  - Return on investment does not meet conventional standards, and issues exist with landlord-tenant laws relating to liability. Criminal backgrounds and credit history are barriers to different kinds of housing.
  - The community wants affordable and permanent supportive housing, but just “not in my backyard.” Needs lots of different options for affordability because what is affordable is different for all.
  - Last night, Salt Lake passed a zoning ordinance for single room occupancy (SRO) units. Some lenders don’t want to be a part of it because of a low ROI.
  - There are also those who can afford housing but can’t get in because of poor credit, or because of a criminal background. This presents an opportunity for CRA to help them re-establish themselves.

- **Aimee McConkie, Utah Association of Financial Services**: Under CRA, both housing and financial literacy count, so potential double dip with homebuyer credit. Is there a way that the banks sponsor these tenants so there is a credit history - and provide counseling, training - may be able to receive CRA credit?
  - Preston Cochrane, Shelter the Homeless: There are circumstances where single moms whose ex’s may have destroyed their credit and are now suffering through no fault of their own. We’re working with Google Fiber on a digital inclusion program which allows people experiencing homelessness to be taught digital literacy as they fill out applications online to receive the services they need (food stamps, etc.) instead of having their case managers do it. They can set up an email, address, phone number, etc.
  - Aimee McConkie, Utah Association of Financial Services: I don’t know that people are looking at financial literacy, credit counseling, etc. with the digital literacy component.
  - Syd Peacock, Synchrony Bank: It may be challenging to track that this kind of service delivery went to an LMI person if it’s available to anybody online.
    - Al Landon, Center for Innovation in Banking and Financial Services: It would work if they came to a center and there was physical delivery of these services.
    - Aimee McConkie, Utah Association of Financial Services: if there was a financial literacy component in a digital literacy class, then it may count for CRA credit.
    - Kathy Hale, Ally Bank: Often, these classes ask for a grant, so it would fulfill a different area of CRA. A component, credit-building, may work – a person gets a
loan that goes into a savings account, and the payments come out of this account and the person goes to financial literacy classes in the meantime. The kind of bank you are is important; non-branch banks don’t have the resources to go out and give services like literacy training, and they don’t do retail clients; we don’t do any direct consumer lending except for mortgages. The type of bank supporting model can be a challenge.

- But could we build community utility that could do that kind of lending on behalf of those institutions that want to provide that kind of support for CRA credit?

When we’re rehabbing an area, how does that work with CRA funds?

- Syd Peacock, Synchrony Bank: Preservation funds are an equity type of investments by banks for CRA; those funds target those types of property to keep them affordable. Bridge Investment Group is a Sandy entity that finds those kinds of properties.

- Kathy Hale, Ally Bank: Syndicates like this that locate these properties seem to find properties that aren’t completely run down, with a more cosmetic issue. When you say rehab an area, you’re talking about revitalization, and if its targeted at LMI area, then it definitely qualifies for CRA.

- Aimee McConkie, Utah Association of Financial Services: Where is Salt Lake County looking at these for these revitalization zones? Is that helpful to know from a CRA perspective?

- Kathy Hale, Ally Bank: Under CRA, if you’re doing something to help government revitalization plans, then it counts for credit, but it must help stabilize an LMI census tract.

- Preston Cochrane, Shelter the Homeless: We’re building a 65 unit building for the Magnolia project. We’re partnering with Goldman, we’ve worked with HAND, where we got $1M, 0% refurbed. If you could rehab a blighted motel and turn it into an SRO or different housing stock, that would be great; it’s just that the rents are so small that how do you pay for it.

- Aimee McConkie, Utah Association of Financial Services: Millcreek just did a blight study; it’d be helpful to know which other areas are doing blight studies.

How would CRA funds apply to opportunity zones?

- Kathy Hale, Ally Bank: You have to have certain capital gains; at some point, there may be a CDFI that come up with some kind of capital stack with CRA money. If it’s an LMI tract, it qualifies, but we don’t have the capital gains.

- Syd Peacock, Synchrony Bank: We don’t either.

- Aimee McConkie, Utah Association of Financial Services: In the report, we want to see not only who, but where.

Are there things that you’ve set out to do, but really needed the funding for in the form of a loan?

- Ollie Wilder, Park City Community Foundation: Generally, no. Most social impact work tends to get down through philanthropic dollars and not loan dollars. For loan dollars to work there has to be revenue that can eventually pay it off. The big player in affordable housing in our area are Park City Municipal, Mountainland Community Housing Trust, which is very good at getting access to getting CRA loans). Key constraints in affordable housing are finding affordable land in our area and getting permission to actually build something through the entire building process.
  - Other things that come to mind are social enterprise business, not sure if these qualify for CRA credit, but they do have a revenue stream, not sure they need CRA loans. There’s Spoil to Soil, Lucky One’s Coffee, TeethFirst, etc. Would these small businesses with a social focus qualify for CRA credit? Or are the requirements such that it gets too complicated?

- Kathy Hale, Ally Bank: Economic development like lending to small business is CRA credit eligible if it promotes job growth or job creating, but for most big banks that don’t do direct consumer lending, this isn’t something that they would do. It could work through an intermediary group that makes these investments and the banks support through a loan pool. But those are the type of
models that are great for nonprofits to take on to generate some revenue. We wouldn’t do direct loans but would have to use a vehicle.

- **Syd Peacock, Synchrony Bank**: Though there’s a strong concentration of the banks here, many have different business models, and the majority, if not all, don’t do direct consumer lending.
- **Kathy Hale, Ally Bank**: It’s too labor intensive for many of these banks and they don’t have the staff. There are vehicles like the Microenterprise Loan Fund, and Rocky Mountain CRC is a good example for using bank syndicate to make community loans, they have over $100M in commitments. They have their own internal underwriting, back office, credit approval internally, which is elevated to a committee of mode banks. It doesn’t work to create a proposal then to send it out to the banks to approve; nothing ever happens. There has to be a model where someone leads out and we trust you and will give it a review, but in the end, you’re on the hook to make sure it’s done right. RMCRC only do term debt on multi-family housing.
- **Al Landon, Center for Innovation in Banking and Financial Services**: So there’s a whole other sector out there—if we had the right structure to get retirees from institutions with credit experience to mentor students get an advisory board from those institutions.
  - **Kathy Hale, Ally Bank**: Part of the challenges with volunteers is consistency.

**What are the most pressing needs that you see as your organization or as a citizen?**

- **Preston Cochrane, Shelter the Homeless**: Transportation, specifically cars for those with poor credit.
- **Syd Peacock, Synchrony Bank**: Another area is healthcare.
- **Daniel Hadley, Sorenson Impact Center**: Housing is my top concern, but I also worry about air and water quality, though it may not be directly CRA related.
- **Aimee McConkie, Utah Association of Financial Services**: After school child care, specifically the 3:00–5:00 hours. Salt Lake County Housing Authority has one, Neighborhood House but it’s not enough to fill the need. It also needs to be somewhere that the child can get by themselves, so it comes back to transportation.
  - **Daniel Hadley, Sorenson Impact Center**: We just finished a study in West Valley; when asked if people would do pre-K, that “why not” was always about transportation and aftercare.
- **Stephanie White, UBS Bank**: While there are many loans here and there that we’ve talked about, the challenge is going to be is looking at what the big impact that the banks can make. What are the needs and what, as banks, can we do that all of us together we can make a big impact.

**MEMO: CRA “Common Originator” Idea**

*Utah Center for Financial Services | December 6, 2017*

In recent weeks CRA leaders from some Utah banks met with service providers Utah Center for Financial Services (UCFS) and Sorensen Impact Center (SIC) to discuss the community needs assessment project and challenges their banks to have in originating loans and investment that qualify for CRA purposes. The origination is difficult for some of our Utah banks because they are specialty lenders (examples are cards, vehicle or home improvement loans) that do not have the people or processes to originate or service loans that qualify for CRA purposes.

One idea we discussed was possibly creating a lending function as a “Common Originator” of loans that serve community needs. Interested banks could identify opportunities, oversee projects and participate in
the loans or investments that could qualify for CRA purposes when help by interested banks. The “Common Originator” could have some functions similar to a CDFI.

A possible provider of lending services could be an entity created and lead by the UCFS, working in collaboration with the SIC. The “Common Originator” could be organized as a mutual, not-for-profit business, chartered for the purpose of originating and servicing loans and investments funded and owned by participating banks.

The “Common Originator” would have a properly descriptive name. It could be advised by industry specialists who could guide the origination and servicing processes. Mentors from the UCFS and SIC could lead interested student employees, who could get real and practical experience in local lending and investing that could accomplish an important social good.

While there would be hurdles to overcome and risks to be managed, the “Common Originator” could assist our community support organizations, Utah banks and University students with a mutually beneficial service to provide a social good.